

CITY OF GARNAVILLO

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2007

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Dietz, Donald & Company

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Garnavillo, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Garnavillo's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As permitted by the Code of Iowa, the basic financial statements of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary if we had been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006, as discussed in the second preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Garnavillo as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2007 on our consideration of the City of Garnavillo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Garnavillo's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, if we had been able to satisfy ourselves as to the

distribution by fund of the cash balances at July 1, 2006, as discussed in the fifth preceeding paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

September 28, 2007

Dietz, Donald & Company
Dietz, Donald and Company
FEIN 42-1172392

City of Garnavillo
P.O. Box 14
Garnavillo, Iowa 52049

Mark Priebe, Mayor

563-964-2331

Lynette L. Sander, Clerk

The City of Garnavillo provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements which follow. However, keep in mind that Chapter 11 of the Code of Iowa requires the City to have an audit of its basic financial statements once every four years because the City's population is between 700 and 2,000. Therefore, any financial information presented herein for the fiscal year ended June 30, 2006 has not been audited.

2007 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 28.1%, or approximately \$ 222,000 from fiscal 2006 to fiscal 2007. Property tax decreased approximately \$ 37,000 and loan proceeds decreased \$ 210,000.

Disbursements of the City's governmental activities decreased 29.4%, or approximately \$ 250,000, in fiscal 2007 from fiscal 2006. General government and capital projects disbursements decreased \$ 7,000 and \$ 388,000 respectively.

The City's total cash basis net assets decreased 27.6%, or approximately \$ 62,000, from June 30, 2006 to June 30, 2007. Of this amount the assets of the governmental activities decreased approximately \$ 32,000 and the assets of the business type activities decreased approximately \$ 30,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial

statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$ 208,000 to \$ 176,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

| | <u>Years Ended June 30,</u> | |
|---|-----------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 48 | 41 |
| Operating grants, contributions and restricted interest | 106 | 163 |
| General receipts: | | |
| Property tax | 291 | 231 |
| Local option sales tax | 52 | 47 |
| Unrestricted interest on investments | 2 | 4 |
| Loan proceeds | 50 | 260 |
| Other general receipts | 19 | 44 |
| Total receipts | <u>568</u> | <u>790</u> |
| Disbursements: | | |
| Public safety | 168 | 122 |
| Public works | 197 | 172 |
| Health and social services | 1 | 0 |
| Culture and recreation | 68 | 62 |
| Community and economic development | 76 | 16 |
| General government | 83 | 90 |
| Debt service | 7 | 0 |
| Capital projects | 0 | 388 |
| Total disbursements | <u>600</u> | <u>850</u> |
| Change in cash basis net assets | (32) | (60) |
| Cash basis net assets beginning of year | <u>208</u> | <u>268</u> |
| Cash basis net assets end of year | <u>\$ 176</u> | <u>208</u> |

The City's total receipts for governmental activities decreased 28.1%, or approximately \$ 222,000. The total cost of all programs and services decreased approximately \$ 250,000, or 29.4%, with no new programs added this year. The significant decrease in receipts was the result of proceeds from the issuance of urban renewal tax increment financing revenue notes in 2006.

The City decreased property tax rates for 2007 by an average of 16 percent. This decrease, dropped the City's property tax receipts approximately \$ 37,000 in 2007. The property tax receipts are budgeted to stay the same next year.

The cost of all governmental activities this year was \$ 600,000 compared to \$ 850,000 last year. However, as shown in the Statement

of Activities and Net Assets on page 16, the amount taxpayers ultimately financed for these activities was only \$ 446,000 because some of the cost was paid by those directly benefited from the programs (\$ 48,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 106,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service decreased in 2007 from approximately \$ 204,000 to approximately \$ 154,000, principally due to receiving \$ 29,000 in Community Development Block Grant funds and \$ 30,000 from Upper Mississippi Gaming Corporation in 2006. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 446,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and loan proceeds.

| Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) | | |
|--|---------------------|------|
| | Year Ended June 30, | |
| | 2007 | 2006 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 115 | 97 |
| Sewer | 86 | 59 |
| Total receipts | 201 | 156 |
| Disbursements: | | |
| Water | 138 | 95 |
| Sewer | 93 | 70 |
| Total disbursements | 231 | 165 |
| Change in cash basis net assets | (30) | (9) |
| Cash basis net assets beginning of year | 15 | 24 |
| Cash basis net assets (deficit) end of year | \$ (15) | 15 |

The business type activities receipts for the fiscal year were \$ 201,000 compared to \$ 156,000 last year. The significant increase was due primarily to an increase in water and sewer rates which was implemented during the year. The cash balance decreased by approximately \$ 30,000 as the increase in disbursements outpaced the increase in receipts. Total disbursements for the fiscal year increased by 40% to a total of \$ 231,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Garnavillo completed the year, its governmental funds reported a combined fund balance of \$ 176,370, a decrease of nearly \$ 32,000 below last year's total of \$ 208,320. The following are the

major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$ 28,780 from the prior year to \$ 42,790. Although receipts were virtually unchanged from last year, disbursements increased by over \$ 61,000. Public safety disbursements increased by over \$ 45,000 due to the purchase of a new fire truck which was funded by a loan of \$ 50,000.

The Special Revenue, Road Use Tax Fund cash balance decreased \$ 15,894 to \$ 16,300 during the fiscal year. Road use tax receipts changed by less than \$ 300, however the City spent a portion of accumulated road use tax funds in 2007.

The Special Revenue Urban Renewal Tax Increment Fund cash balance increased \$ 10,104 to \$ 104,600. These proceeds will be used for various construction and refurbishing projects within the urban renewal district. The bonds and interest will be redeemed with incremental property tax generated from the increased taxable valuation in the district.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$ 22,697, leaving the Water Fund with a \$ 6,263 deficit. Receipts for 2007 were \$ 115,441, \$ 18,669 more than in 2006, due to increased rates. It is hoped that the increased rates will return the Water Fund to sound financial status.

The Sewer Fund cash balance decreased by \$ 6,965, leaving the Sewer Fund with an \$ 8,359 deficit. Receipts for 2007 were \$ 85,760, \$ 26,578 more than in 2006, due to increased rates. It is hoped that the increased rates will return the Sewer Fund to sound financial status.

BUDGETARY HIGHLIGHTS

During the year, the City amended its budget once. The amendment was approved May 7, 2007. Public safety disbursements were increased by \$ 80,256 to cover the purchase of a new fire truck. Business type disbursements were increased by \$ 57,952 to cover unexpected repairs to infrastructure.

The City's receipts were \$ 71,167 less than budgeted. This was primarily due to the City receiving less in grant proceeds than anticipated.

Even with the budget amendments, the City's disbursements for the public works, culture and recreation and business type activities functions were \$ 2,438, \$ 2,833 and \$ 7,020, respectively, more than

the amended budget. Maintenance and repair projects exceeding anticipated costs were the main cause for the budget violation.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$ 282,227 in long-term debt outstanding, compared to \$ 291,733 last year, as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|--|---------------|------------|
| | June 30, | |
| | 2007 | 2006 |
| General obligation note | \$ 45 | 0 |
| Urban renewal tax increment financing revenue note | 188 | 237 |
| Revenue note | 49 | 55 |
| Total | <u>\$ 282</u> | <u>292</u> |

The City borrowed \$ 50,000 for the purchase of a new fire truck in 2007. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 45,540 is significantly below its constitutional debt limit of \$ 1.5 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Garnavillo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities.

The City has experienced little growth recently. County population has actually decreased over the last fifteen years. Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2% for fiscal year 2007 compared with the national rate of 3.4%. Inflation has been modest here as well.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$ 805,000, an increase of 1.9% over the fiscal 2007 budget. Tax increment financing collections are expected to lead the increase. Budgeted disbursements are expected to decrease by

approximately \$ 102,000. Public safety disbursements are expected to decrease by approximately \$ 70,000 (no new fire truck in 2008) and business type disbursements are expected to decrease by \$ 25,000 (fewer repairs). The City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 14,000 by the close of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact City Hall, 106 East Chestnut Street, Garnavillo, Iowa 52049-0014.

BASIC FINANCIAL STATEMENTS

CITY OF GARNAVILLO
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2007

| Functions/Programs: | Disbursements | Program Receipts | | | Net (Disbursements) Receipts and | | |
|--|-------------------|---------------------|---|-------------------------|----------------------------------|------------------|---------------------------------|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities | Total | Change in Cash Basis Net Assets |
| Governmental activities: | | | | | | | |
| Public safety | \$ 168,215 | 2,951 | 23,618 | (141,646) | 0 | (141,646) | 0 |
| Public works | 197,465 | 41,286 | 62,842 | (93,337) | 0 | (93,337) | 0 |
| Health and social services | 1,000 | 0 | 0 | (1,000) | 0 | (1,000) | 0 |
| Culture and recreation | 68,092 | 1,740 | 19,716 | (46,636) | 0 | (46,636) | 0 |
| Community and economic development | 75,567 | 0 | 0 | (75,567) | 0 | (75,567) | 0 |
| General government | 83,167 | 1,740 | 0 | (81,427) | 0 | (81,427) | 0 |
| Debt service | 6,578 | 0 | 0 | (6,578) | 0 | (6,578) | 0 |
| Total governmental activities | 600,184 | 47,717 | 106,176 | (446,291) | 0 | (446,291) | 0 |
| Business type activities: | | | | | | | |
| Water | 138,138 | 115,441 | 0 | 0 | 0 | (22,697) | (22,697) |
| Sewer | 92,725 | 85,760 | 0 | 0 | 0 | (6,965) | (6,965) |
| Total business type activities | 230,863 | 201,201 | 0 | 0 | 0 | (29,662) | (29,662) |
| Total | \$ 831,047 | 248,918 | 106,176 | (446,291) | (29,662) | (475,953) | 0 |
| General Receipts: | | | | | | | |
| property and other city taxes levied for: | | | | | | | |
| General purposes | | | | | | | |
| Tax increment financing | | | | | | | |
| Debt service | | | | | | | |
| Local option sales tax | | | | | | | |
| Unrestricted interest on investments | | | | | | | |
| Loan proceeds | | | | | | | |
| Miscellaneous | | | | | | | |
| Sale of assets | | | | | | | |
| Total general receipts | | | | | | | |
| Change in cash basis net assets | | | | | | | |
| Cash basis net assets beginning of year | | | | | | | |
| Cash basis net assets end of year | | | | | | | |
| Cash Basis Net Assets | | | | | | | |
| Restricted: | | | | | | | |
| Streets | | | | | | | |
| Urban renewal purposes | | | | | | | |
| Debt service | | | | | | | |
| Other purposes | | | | | | | |
| Unrestricted | | | | | | | |
| Total cash basis net assets | | | | | | | |

See notes to financial statements.

CITY OF GARNAVILLO
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2007

| | Special Revenue | | | | Total |
|--|------------------|------------------|-----------------------------|------------------|-------------------|
| | General | Road Use Tax | Urban Renewal Tax Increment | Nonmajor | |
| Receipts: | | | | | |
| Property tax | \$ 148,078 | 0 | 0 | 58,495 | 206,573 |
| Tax increment financing | 0 | 0 | 84,917 | 0 | 84,917 |
| Other city tax | 52,542 | 0 | 0 | 0 | 52,542 |
| Licenses and permits | 1,740 | 0 | 0 | 0 | 1,740 |
| Use of money and property | 5,563 | 0 | 0 | 0 | 5,563 |
| Intergovernmental | 41,428 | 62,842 | 0 | 0 | 104,270 |
| Charges for service | 40,086 | 0 | 0 | 0 | 40,086 |
| Miscellaneous | 10,743 | 0 | 0 | 0 | 10,743 |
| Total receipts | 300,180 | 62,842 | 84,917 | 58,495 | 506,434 |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | 154,293 | 0 | 0 | 13,922 | 168,215 |
| Public works | 107,495 | 78,736 | 0 | 11,234 | 197,465 |
| Health and social services | 1,000 | 0 | 0 | 0 | 1,000 |
| Culture and recreation | 62,083 | 0 | 0 | 6,009 | 68,092 |
| Community and economic development | 754 | 0 | 74,813 | 0 | 75,567 |
| General government | 65,235 | 0 | 0 | 17,932 | 83,167 |
| Debt service | 0 | 0 | 0 | 6,678 | 6,678 |
| Total disbursements | 390,860 | 78,736 | 74,813 | 55,775 | 600,184 |
| Excess (deficiency) of receipts over (under) disbursements | (90,680) | (15,894) | 10,104 | 2,720 | (93,750) |
| Other financing sources: | | | | | |
| Loan proceeds | 50,000 | 0 | 0 | 0 | 50,000 |
| Sale of capital assets | 11,900 | 0 | 0 | 0 | 11,900 |
| Total other financing sources | 61,900 | 0 | 0 | 0 | 61,900 |
| Net change in cash balances | (28,780) | (15,894) | 10,104 | 2,720 | (31,850) |
| Cash balances beginning of year | 71,570 | 32,194 | 94,496 | 9,560 | 208,220 |
| Cash balances end of year | \$ 42,790 | \$ 16,300 | \$ 104,600 | \$ 12,680 | \$ 176,370 |
| Cash Basis Fund Balances | | | | | |
| Reserved for debt service | \$ 0 | 0 | 0 | 5,804 | 5,804 |
| Unreserved: | | | | | |
| General fund | 42,790 | 0 | 0 | 0 | 42,790 |
| Special revenue funds | 0 | 16,300 | 104,600 | 8,344 | 129,244 |
| Capital projects fund | 0 | 0 | 0 | (1,468) | (1,468) |
| Total cash basis fund balances | \$ 42,790 | \$ 16,300 | \$ 104,600 | \$ 12,680 | \$ 176,370 |

See notes to financial statements.

CITY OF GARNAVILLO
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2007

| | <u>Enterprise Funds</u> | | |
|--|-------------------------|----------------|-----------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| Operating receipts: | | | |
| Charges for service | \$ 115,441 | 85,760 | 201,201 |
| Operating disbursements: | | | |
| Business type activities | <u>138,138</u> | <u>83,853</u> | <u>221,991</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | (22,697) | 1,907 | (20,790) |
| Non-operating disbursements: | | | |
| Debt service | <u>0</u> | <u>8,872</u> | <u>8,872</u> |
| Deficiency of receipts under disbursements | (22,697) | (6,965) | (29,662) |
| Cash balances beginning of year | <u>16,434</u> | <u>(1,394)</u> | <u>15,040</u> |
| Cash balances end of year | <u>\$ (6,263)</u> | <u>(8,359)</u> | <u>(14,622)</u> |
| Cash Basis Fund Balances Unreserved | <u>\$ (6,263)</u> | <u>(8,359)</u> | <u>(14,622)</u> |

See notes to financial statements.

CITY OF GARNAVILLO

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Garnavillo is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1907 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Garnavillo has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and Clayton County

Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories;

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Garnavillo maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works, culture and recreation, and business type activities functions.

(2) Cash

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of

deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes, urban renewal tax increment financing revenue notes and revenue notes are as follows:

| Year Ending June 30, | General Obligation Notes | | Urban Renewal Tax Increment Financing (TIF) Revenue Notes | | Revenue Notes | | Total | |
|----------------------------|-----------------------------|----------|--|----------|---------------|----------|-----------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2008 | \$ 9,248 | 2,199 | 50,989 | 7,001 | 6,538 | 2,334 | 66,775 | 11,534 |
| 2009 | 9,729 | 1,718 | 53,049 | 4,941 | 6,878 | 1,994 | 69,656 | 8,653 |
| 2010 | 10,228 | 1,219 | 55,192 | 2,798 | 7,228 | 1,644 | 72,648 | 5,661 |
| 2011 | 10,753 | 694 | 28,400 | 569 | 7,596 | 1,276 | 46,749 | 2,539 |
| 2012 | 5,582 | 142 | - | - | 7,981 | 891 | 13,563 | 1,033 |
| 2013-2014 | - | - | - | - | 12,835 | 565 | 12,835 | 565 |
| Total | \$ 45,540 | 5,972 | 187,630 | 15,309 | 49,056 | 8,704 | 282,226 | 29,985 |

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the

constitutional debt limitation of the City.

The resolution providing for the issuance of the revenue notes states that the notes will only be redeemed from the future earnings of the Enterprise, Sewer Fund and the note holders hold a lien on the future earnings of the fund.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2007 were \$ 9,553, equal to the required contributions for the year. The City had an IPERS compliance review in August, 2006 and was required to contribute \$ 5,483 for an additional two employees.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused personal days, vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned personal days, vacation and sick leave payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|------------------|
| Personal days | \$ 1,000 |
| Vacation | 8,000 |
| Sick leave | 20,000 |
| Total | <u>\$ 29,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2007.

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 425 during the year ended June 30, 2007.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial coverage in any of the past three fiscal years.

(8) Deficit Balances

The Enterprise, Water Fund; the Enterprise, Sewer Fund and the Capital Projects, Urban Renewal Fund had deficit balances of \$ 6,263, \$ 8,359 and \$ 1,468, respectively, at June 30, 2007. The Water and Sewer Fund deficits will be eliminated with an increase in rates. The Urban Renewal Fund deficit will be eliminated with a General Fund transfer.

(9) Commitments

The City let a contract for \$ 371,000 in connection with a water improvement project. This project will be financed with a \$ 250,000 Community Development Block Grant and issuance of \$ 500,000 of water revenue bonds and \$ 200,000 of general obligation bonds through the state revolving loan fund at 3% interest.

The City also contracted for blacktopping of City streets for \$ 29,475 in July, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CANAVAILLO
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2007

| | Governmental Funds | | Proprietary Funds | | Total | | Budgeted Amounts | | Final to Total Variance |
|--|--------------------|--|-------------------|--|----------------|--|------------------|----------------|-------------------------|
| | Actual | | Actual | | | | Original | Final | |
| Receipts: | | | | | | | | | |
| Property tax | \$ 206,573 | | 0 | | 206,573 | | 200,215 | 200,215 | 6,358 |
| Tax increment financing collections | 84,917 | | 0 | | 84,917 | | 57,990 | 57,990 | 26,927 |
| Other city tax | 52,542 | | 0 | | 52,542 | | 51,202 | 61,202 | (8,660) |
| Licenses and permits | 1,740 | | 0 | | 1,740 | | 2,025 | 2,025 | (285) |
| Use of money and property | 5,563 | | 0 | | 5,563 | | 35,000 | 35,700 | (30,137) |
| Intergovernmental | 104,270 | | 0 | | 104,270 | | 181,167 | 185,761 | (81,491) |
| Charges for service | 40,086 | | 201,201 | | 241,287 | | 199,030 | 240,089 | 1,198 |
| Miscellaneous | 10,743 | | 0 | | 10,743 | | 2,500 | 7,720 | 3,023 |
| Total receipts | 506,434 | | 201,201 | | 707,635 | | 729,129 | 790,702 | (83,067) |
| Disbursements: | | | | | | | | | |
| Public safety | 168,215 | | 0 | | 168,215 | | 89,579 | 169,835 | 1,620 |
| Public works | 197,465 | | 0 | | 197,465 | | 167,223 | 195,027 | (2,438) |
| Health and social services | 1,000 | | 0 | | 1,000 | | 1,000 | 1,000 | 0 |
| Culture and recreation | 68,092 | | 0 | | 68,092 | | 60,634 | 65,259 | (2,833) |
| Community and economic development | 75,567 | | 0 | | 75,567 | | 142,611 | 142,611 | 67,044 |
| General government | 83,167 | | 0 | | 83,167 | | 95,143 | 83,337 | 170 |
| Debt service | 6,678 | | 0 | | 6,678 | | 12,500 | 12,500 | 5,822 |
| Business type activities | 0 | | 230,863 | | 230,863 | | 165,891 | 223,843 | (7,020) |
| Total disbursements | 600,184 | | 230,863 | | 831,047 | | 734,581 | 893,412 | 62,365 |
| Deficiency of receipts under disbursements | (93,750) | | (29,662) | | (123,412) | | (5,452) | (102,710) | (20,702) |
| Other financing sources | 61,900 | | 0 | | 61,900 | | 0 | 50,000 | 11,900 |
| Deficiency of receipts and other financing sources under disbursements | (31,850) | | (29,662) | | (61,512) | | (5,452) | (52,710) | (8,802) |
| Balances beginning of year | 208,220 | | 15,040 | | 223,260 | | 153,334 | 153,334 | 69,926 |
| Balances end of year | \$ 176,370 | | (14,622) | | 161,748 | | 147,882 | 100,624 | 61,124 |

See accompanying independent auditor's report.

CITY OF GARNAVILLO
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon eight major classes of disbursements known as functions, not by fund. These eight functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 158,831. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works, culture and recreation, and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF GARNAVILLO
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2007

| | Special Revenue | Debt | Capital Projects | |
|---|--------------------|---------|---------------------|---------|
| | Employee | Service | Urban | |
| | Benefits | | Renewal | Total |
| Receipts: | | | | |
| Property tax | \$ 46,013 | 12,482 | 0 | 58,495 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 13,922 | 0 | 0 | 13,922 |
| Public works | 11,234 | 0 | 0 | 11,234 |
| Culture and recreation | 6,009 | 0 | 0 | 6,009 |
| General government | 17,932 | 0 | 0 | 17,932 |
| Debt service | 0 | 6,678 | 0 | 6,678 |
| Total disbursements | 49,097 | 6,678 | 0 | 55,775 |
| Excess (deficiency) of receipts over (under) disbursements | (3,084) | 5,804 | 0 | 2,720 |
| Cash balances beginning of year | 11,428 | 0 | (1,468) | 9,960 |
| Cash balances end of year | \$ 8,344 | 5,804 | (1,468) | 12,680 |
| Cash Basis Fund Balances | | | | |
| Reserved for debt service | \$ 0 | 5,804 | 0 | 5,804 |
| Unreserved | | | | |
| Special revenue funds | 8,344 | 0 | 0 | 8,344 |
| Capital project fund | 0 | 0 | (1,468) | (1,468) |
| | \$ 8,344 | 5,804 | (1,468) | 12,680 |

See accompanying independent auditor's report.

CITY OF GARNAVILLE
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2007

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued | Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|--|---------------|----------------|--------------------------|---------------------------|--------------------|----------------------|---------------------|---------------|
| General obligation notes: | | | | | | | | |
| Fire truck | Dec 1, 2006 | 5.00% | \$ 50,000 | 0 | 50,000 | 4,460 | 45,540 | 1,264 |
| Urban renewal tax increment financing (TIF) revenue note | | | | | | | | |
| Revenue note: | Nov 15, 2005 | 4.00% | \$ 260,000 | 236,475 | 0 | 48,845 | 187,630 | 9,043 |
| Sewer | Dec 23, 2003 | 5.00% | \$ 69,475 | 55,258 | 0 | 6,202 | 49,056 | 2,707 |

See accompanying independent auditor's report.

CITY OF CARNAVILLO
NOTE MATURITIES
June 30, 2007

| Year Ending June 30, | <u>General Obligation Note</u> | | <u>Urban Renewal Tax Increment Financing (TIF) Revenue Note</u> | |
|----------------------------|--------------------------------|------------------|---|-------------------|
| | <u>Fire Truck</u> | | <u>Issued Nov 15, 2005</u> | |
| | <u>Issued Dec 1, 2006</u> | | <u>Interest</u> | |
| | <u>Interest Rates</u> | <u>Amount</u> | <u>Rates</u> | <u>Amount</u> |
| 2008 | 5.00% | \$ 9,248 | 4.00% | \$ 50,989 |
| 2009 | 5.00 | 9,729 | 4.00 | 53,049 |
| 2010 | 5.00 | 10,228 | 4.00 | 55,192 |
| 2011 | 5.00 | 10,753 | 4.00 | 28,400 |
| 2012 | 5.00 | 5,582 | | - |
| Total | | <u>\$ 45,540</u> | | <u>\$ 187,630</u> |

| Year Ending June 30, | <u>Revenue Note</u> | |
|----------------------------|----------------------------|------------------|
| | <u>Sewer</u> | |
| | <u>Issued Dec 23, 2003</u> | |
| | <u>Interest Rates</u> | <u>Amount</u> |
| 2008 | 5.00% | \$ 6,538 |
| 2009 | 5.00 | 6,878 |
| 2010 | 5.00 | 7,228 |
| 2011 | 5.00 | 7,596 |
| 2012 | 5.00 | 7,981 |
| 2013 | 5.00 | 8,390 |
| 2014 | 5.00 | 4,445 |
| Total | | <u>\$ 49,056</u> |

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Garnavillo, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basis financial statements listed in the table of contents, and have issued our report thereon dated September 28, 2007. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, because we were not able to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006. Except as previously discussed, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Garnavillo's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Garnavillo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Garnavillo's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Garnavillo's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of

accounting such that there is more than a remote likelihood a misstatement of the City of Garnavillo's financial statements that is more than inconsequential will not be prevented or detected by the City of Garnavillo's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Garnavillo, Iowa's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Garnavillo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Garnavillo's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Garnavillo's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Garnavillo and other parties to whom the City of Garnavillo may report.

This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Garnavillo during the course of our audit. Should you have any questions concerning any of the above matters, we shall be please to discuss them with you at your convenience.

Elkader, Iowa

September 28, 2007

Dietz, Donald & Company
Dietz, Donald and Company
FEIN 42-1172392

CITY OF GARNAVILLO
SCHEDULE OF FINDINGS
Year Ended June 30, 2007

Other Findings Related to Required Statutory Reporting

- A. Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public works, culture and recreation, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion - Response accepted.

- B. Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- C. Travel Expense - No disbursements of City money for travel expenses of City officials or employees were noted.
- D. Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|----------------------------|--------|
| Carl Kuehl, Mayor pro tem Co-owner F/S Speede Shoppe | Gasoline | \$ 276 |
| Robert Bodish, Council Member, Owner Top Gun | Repairs | 149 |

In accordance with Chapter 362.5 (11) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since the total transactions with each of the individuals was less than \$ 2,500 during the fiscal year.

- E. Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

F. Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

G. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

H. Revenue Notes - The City has complied with the revenue note resolution.

I. Financial Condition - The Enterprise, Water Fund; the Enterprise, Sewer Fund; and the Capital Projects, Urban Renewal Fund had deficit balances at June 30, 2007 of \$ 6,263, \$ 8,359 and \$ 1,468, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

Response - We have raised water and sewer rates and anticipate that the deficit position in these funds will be eliminated. A General Fund transfer will be made to eliminate the Capital Projects, Urban Renewal Fund deficit.

Conclusion - Response accepted.

J. Local Option Sales Tax - All local option sales tax receipts have been deposited in the General Fund. However, the resolution presented to the voters imposing the local option sales tax allocated the tax as follows: 25% for property tax relief and 75% for water and sewer extensions.

Recommendation - A Special Revenue, Local Option Sales Tax Fund should be established to track local option sales tax receipts, with 25% being transferred to the General Fund and the remainder being held in the Special Revenue Fund and being disbursed for water and sewer extensions as appropriate. In lieu of this, the City would need to present a new local option sales tax resolution reallocating the sales tax receipts as the City now sees fit.

Response - We will consider this.

Conclusion - Response accepted.